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SENSITIVE

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FOR WHA/CEN DESK OFFICER JENNIFER VANTRUMP

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SUBJECT: U.S. BIENNIAL CARIBBEAN BASIN INVESTMENT SURVEY

REF: (A) SECSTATE 060543, (B) 07 SAN JOSE 1248

¶1. (U) SUMMARY: With Entry Into Force (EIF) of the Dominican Republic - Central American Free Trade Agreement (DR-CAFTA) on January 1st 2009, the reporting period 2007-2008 is the last in which the Caribbean Basin trade programs (CBI/CBERA/CBTPA) figure among Costa Rica's trade benefits. Textile and non-traditional agricultural exports have been the principal direct beneficiary sectors. More broadly, the Caribbean Basin trade programs have played a key role in the growth of the wider Costa Rican economy over the last 25 years through encouragement of an outward-looking export orientation and as a springboard for CAFTA ratification and implementation.

FOREIGN DIRECT INVESTMENT OVERVIEW

¶2. (SBU) Costa Rican foreign direct investment (FDI) has increased yearly, reaching a peak of USD 2.016 billion in 2008. The U.S. continues to make up the dominant share of FDI in Costa Rica, accounting for 50 percent in 2007 and 60.4 percent in 2008. Industry has been the leading FDI sector in recent years, with 26.6 percent in 2008. The real estate sector followed with 24.3 percent, agriculture with 21 percent, tourism with 14 percent and the service sector with 6.3 percent. These relative percentages are accurate reflections of historic trends, with the exception of agriculture's 21 percent, which is largely a single USD 403 million purchase of a Costa Rican banana and pineapple producer by the US-based fruit exporter Del Monte.

¶3. (U) TABLE ONE
FOREIGN DIRECT INVESTMENT BY SECTOR

(in millions of dollars, current)
Sector 2004 2005 2006 2007 2008
Agriculture 50.6 37.1 66.1 -10.4 426.5
Agroindustry -0.3 29.6 -3.2 35.1 16.6
Commerce 23.9 47.6 57.0 77.0 64.6
Industry 456.0 344.9 435.5 687.0 536.1
Services 17.3 73.3 60.9 63.7 126.1
Finance 22.6 40.9 343.4 73.9 34.6
Tourism 41.4 53.5 131.9 321.3 285.7
Real Estate 178.4 234.6 373.5 644.7 489.9
Others 3.9 -0.5 4.1 3.8 36.0

TOTAL 794 861 1,469 1,896 2,016
(Source: Banco Central de Costa Rica (BCCR))

¶4. (U) U.S. individuals and companies have accounted for 56 percent of Costa Rica's FDI over the past five years, with a low of 47 percent in 2006 and a high of 70 percent in 2004. U.S. investors registered a relatively high 60 percent in 2008, followed by Mexico (6 percent), Spain (4 percent), El Salvador (3 percent) and Switzerland (2 percent). Canada, Panama, Venezuela, Holland and Italy have also been significant contributors to FDI in past years.

Despite Costa Rica's continued efforts to attract Asian investment, which include current Free Trade Agreement (FTA) negotiations with China, Costa Rica receives very little FDI from the Asian countries.

15. (U) TABLE TWO
FOREIGN DIRECT INVESTMENT
BY COUNTRY OF ORIGIN

(Selected countries, not comprehensive, in millions of dollars, current)

Country	2004	2005	2006	2007	2008	Cumulative Percent Rank
USA	557	532	695	940	1,218	56
Canada	11	55	336	96	25	7.4
Holland	15	0	26	266	25	4.7
Mexico	29	37	31	64	112	3.9
Colombia	11	22	73	30	41	2.5
Germany	16	7	25	59	60	2.4
El Salvador	14	21	33	41	54	2.3
Spain	6	14	11	54	76	2.3
Switzerland	31	-11	10	49	49	1.8
Panama	20	42	29	5	6	1.5
Italy	12	24	16	19	18	1.3
Venezuela	8	8	14	21	18	1.0
Relevant Asian	5	-1	17	3	9	.5
Other						12.5

16. (U) The investment promotion agency CINDE predicts a roughly 30 percent drop in FDI in 2009. The real estate sector and manufacturing industry will be the hardest hit. The service sector, on the other hand, continues to attract new companies, growing from one company in 1995 to a total of 80 companies and 23,800 employees in 2008. CINDE states that in its three target sectors of investment attraction -- Medical Devices, Advanced Manufacturing, and Services -- the number of successful investment deals in 2009 will be the same as in 2008 but the average value per deal will be lower. However, it should be noted that these three very dynamic sectors did not directly benefit from the Caribbean Basin trade programs.

LARGEST EXPORT CATEGORIES TO U.S.

17. (U) United States International Trade Commission (USITC) statistics reveal textiles, tuna and non-traditional agriculture to be the major direct beneficiaries of Caribbean Basin trade programs. Non-traditional agriculture has been the stellar performer with a plethora of smaller firms and distinct new products. The tuna industry is represented by Sardimar, an innovative exporter based in the port town of Puntarenas. The Costa Rican textile industry has been shrinking as many companies relocate to countries with lower cost structures.

18. (U) TABLE THREE
US IMPORTS FROM COSTA RICA
TOP FIVE PRODUCT LINES

Rank	HTS#	Description	Program	2008 Value
1	90189080	Medical Instruments	None Claimed	470,918,961
2	08043040	Pineapple	CBI	447,868,546
3	84733011	Printed Circuit Ass	None Claimed	413,759,425
4	08030020	Banana	None Claimed	313,220,752
5	85423100	Processors & Contr.	None Claimed	205,485,923

Source: USITC website

19. (U) The following table is a continuation of Table Three above. While in the above table we list the first five export product lines in order of 2008 value, in the table below we continue down the list of product lines listing only those that benefit from the Caribbean Basin trade programs. The first column expresses the item's rank within all export item lines from Costa Rica to the United States.

10. (U) TABLE FOUR
US IMPORTS FROM COSTA RICA
RANK IN 2008 OF CARIBBEAN BASIN
BENEFICIARY CATEGORIES

Rank	HTS#	Description	Program	2008 Value
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8	40111010	Pneumatic Rad Tires	CBI	96,240,569
9	22071060	Ethyl Alcohol	CBI	94,351,195
11	61159590	Stockings and Socks	CBTPA	65,577,935
14	20091100	Frozen Orange Juice	CBI	40,906,839
16	08071920	Fresh Cantaloupe	CBI	31,469,114
17	07141020	Fresh Cassava	CBI	30,774,090
18	85363080	Electrical Breakers	CBI	29,463,809
21	06031900	Fresh Cut Flowers	CBI	25,253,938
23	06021000	Live Plant Cuttings	CBI	24,711,216
24	20089913	Banana Pulp	CBI	22,420,332

Source: USITC website

¶11. (U) The Ministry of Foreign Trade (COMEX) recently compiled a list at the request of the US Embassy of companies exporting more than twelve thousand dollars per year in the major Caribbean Basin trade program categories from Costa Rica to the United States. Contact Econ Specialist Kevin Ludeke ludekekj@state.gov for a digital copy of this list with company names and contact information. In the following chart we provide a sample.

¶12. (U) TABLE FIVE
NUMBER OF EXPORTERS TO USA
SELECTED PRODUCT LINES
(Caribbean Basin trade
program beneficiaries)

(Export more than USD 12,000 in 2008)

Fresh Pineapple	86	export firms
Cassava	79	export firms
Chayote	60	export firms
Fresh Cut Flowers	38	export firms
Live Plant Cutting	11	export firms
Banana Pulp	9	export firms

IMPACT OF CARIBBEAN BASIN TRADE PROGRAMS

¶13. (U) The Caribbean Basin trade programs and their beneficiaries have played a broad role in persuading Costa Rica of the wisdom of full engagement with the global economy. During the prolonged public debate leading up to CAFTA Entry Into Force (EIF) on January 1 2009, the non-traditional export companies with Caribbean Basin trade program benefits were living examples of the promise of free trade and as such served as effective counterarguments to the opposition line that CAFTA's benefits were more theoretical than practical. This same philosophy that global trade creates opportunities has led Costa Rica to develop a set of institutions and national characteristics that have deepened and broadened Costa Rica's export diversification and expansion. These institutions and characteristics include the investment promotion agency (CINDE), a very competent and aggressive Ministry of Foreign Trade, aggressive business chambers, individual export "clusters" that have become self-reinforcing, communications and transport infrastructure and an education sector eager to prepare workers for market opportunities. This diverse collection of internal advocates for global trade demonstrates the lasting impact of Costa Rica's graduation from the Caribbean Basin trade programs.

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